

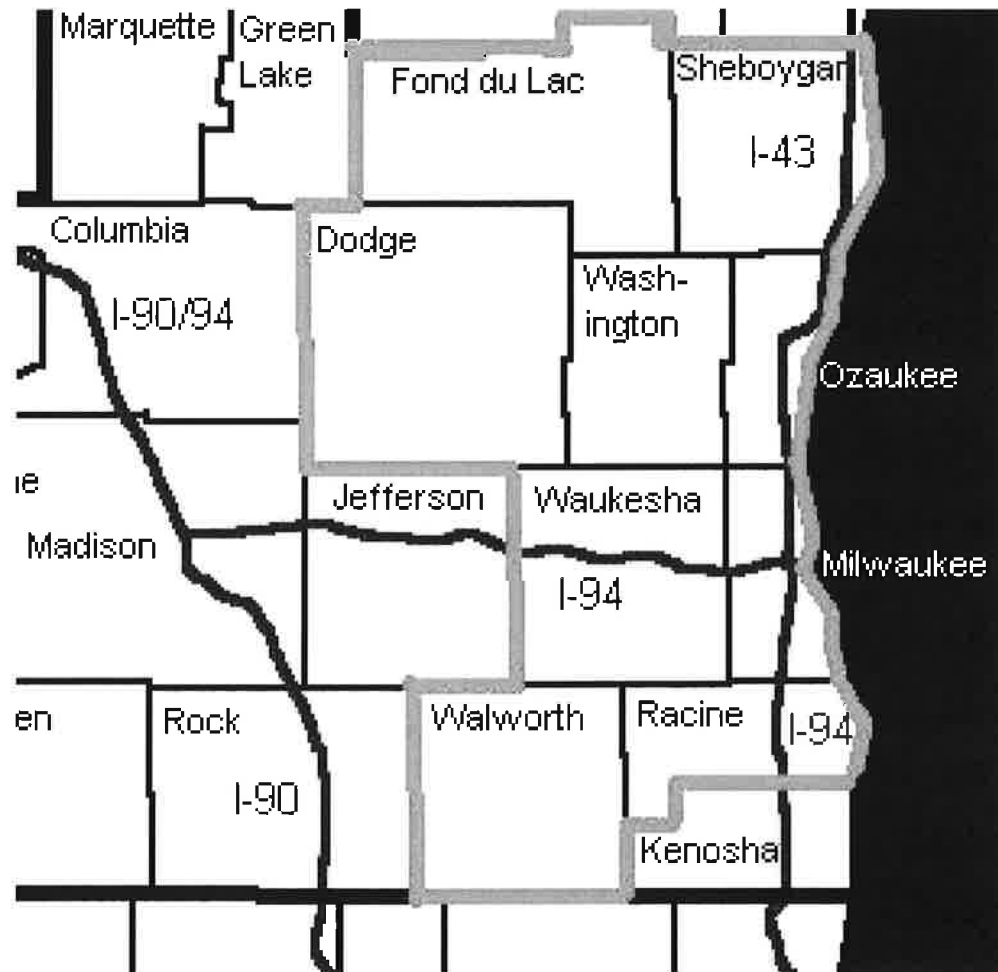
# **Industrial Market Metropolitan Milwaukee**

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# Overview

- Market Area
- General 2012 Trends
- Existing Inventory
- New Construction
- Vacancy Rates / Absorption
- Lease Rates
- Sales Activity
- Capitalization Rates
- Hot Submarkets
- Outlook for 2013

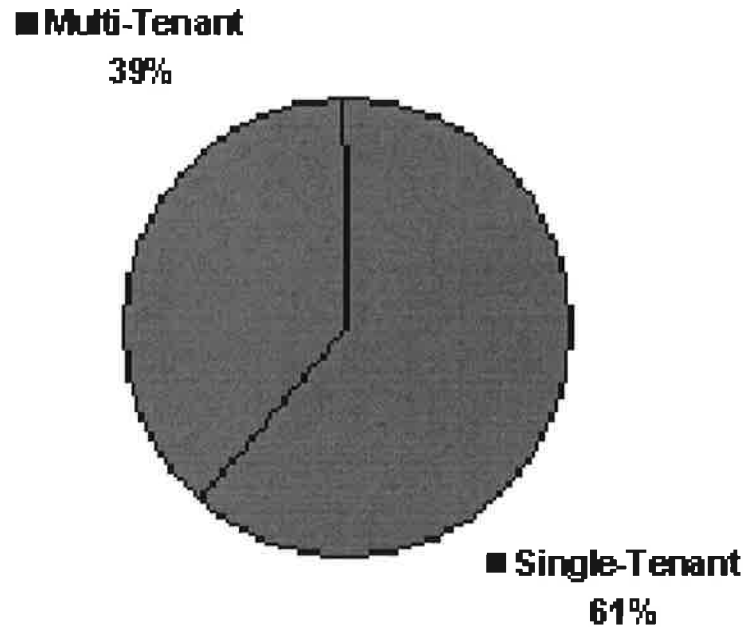
# Market Area



# General 2012 Trends

- Limited new construction
- Vacancy rates trending downwards
- Lease rates trending upwards
- Creative short-term leasing
- Renovation and expansion projects

# Existing Inventory



*\* Approximately 23% of the single-tenant buildings are owner-occupied*

# New Construction

- As of the end of the 3<sup>rd</sup> Qtr 2012 there has been new construction of approximately 500,000 SF in the Metro Milwaukee area
- New construction underway but not yet completed totals 222,000 SF as of the end of the 3<sup>rd</sup> Qtr

# New Construction cont.

Notable Projects Completed in 2012 Include:

- GrandView II, a 184,000-square-foot industrial facility that delivered in first quarter 2012 in Yorkville (Racine County)



# New Construction cont.

- 1966 S 4th St, a 40,000-square-foot multi-tenant flex building delivered in third quarter 2012 in Milwaukee's Third Ward

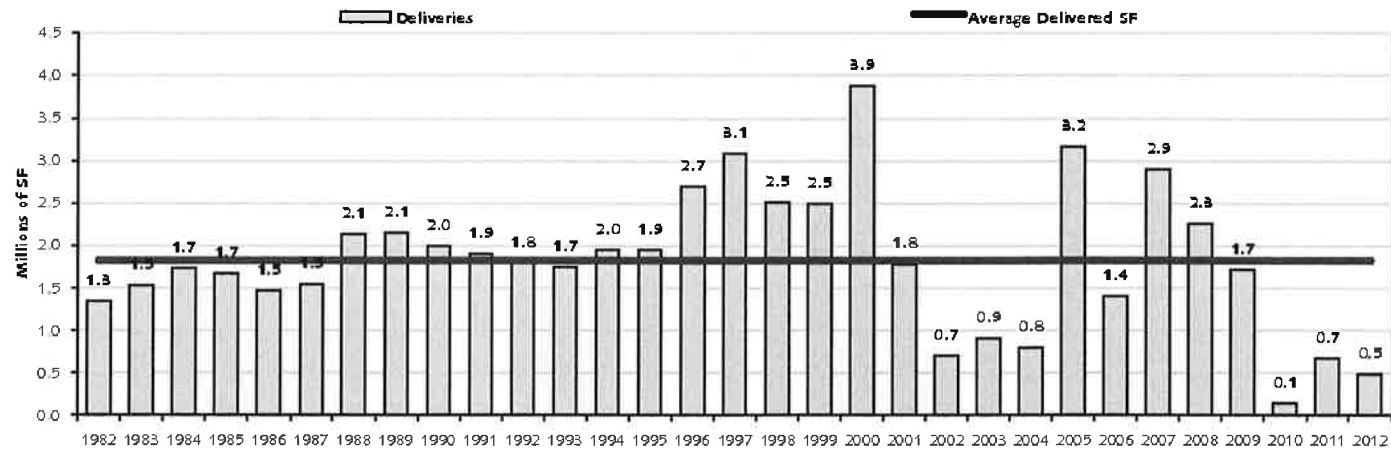




# New Construction cont.

- New construction in the Metro Milwaukee area is approximately 70% below the average new deliveries experienced over the past 20 years

HISTORICAL DELIVERIES 1982 - 2012

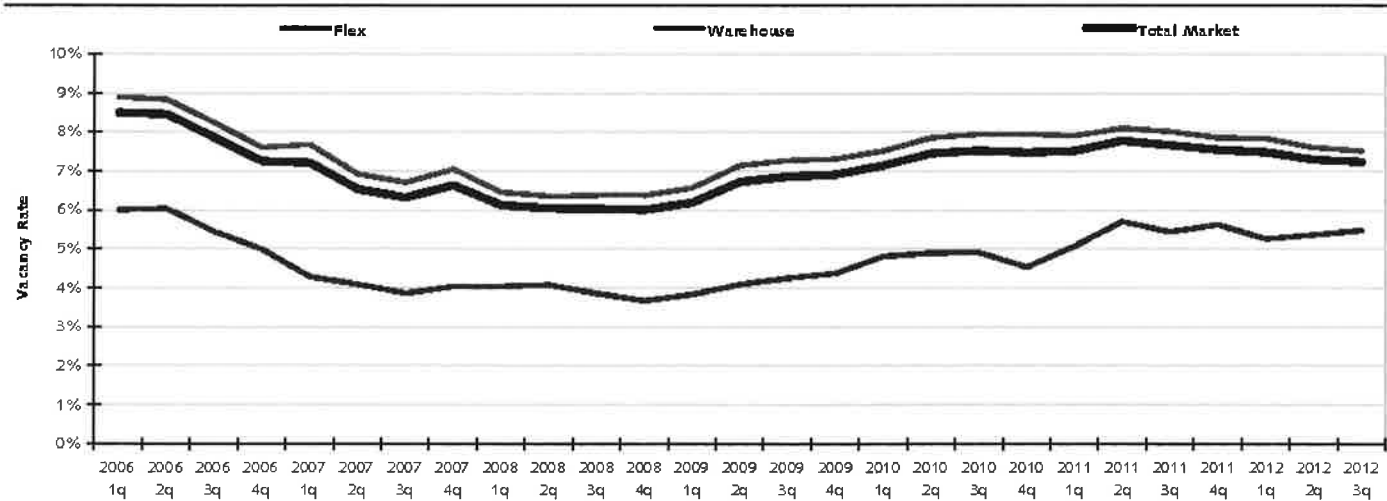


Source: CoStar Property® \* Future deliveries based on current under construction buildings.

# Vacancy Rates / Absorption

- Positive absorption for the 8<sup>th</sup> straight quarter, with decreasing vacancy rates

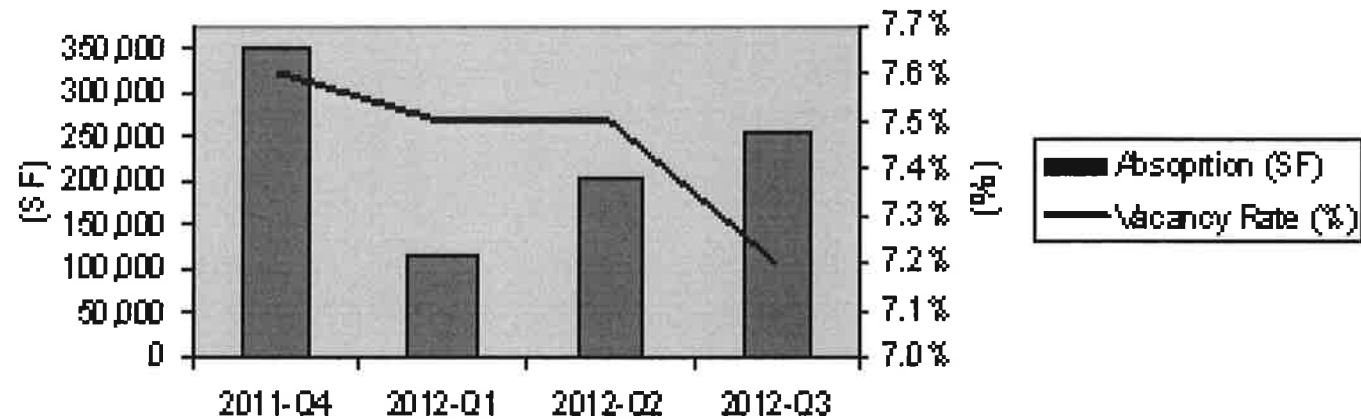
VACANCY RATES BY BUILDING TYPE 2006-2012



Source: GoStar Property®

# Vacancy Rates / Absorption cont.

## Absorption vs Vacancy Rates



# Vacancy Rates / Absorption cont.

Notable Absorption in 2012 Include:

- American Orthodontics, moving into 249,000 SF in Sheboygan (3524 Washington Ave)



- Almo Distributing, moving into 213,840 SF in Mequon (5201-5401 W Donges Bay Rd)



# Vacancy Rates / Absorption cont.

- CNH America, moving into 200,000 SF in Yorkville (3030 S Sylvania Ave)



- American TV, moving into 187,000 SF in Pewaukee (W228 N2801 Duplainville Rd)

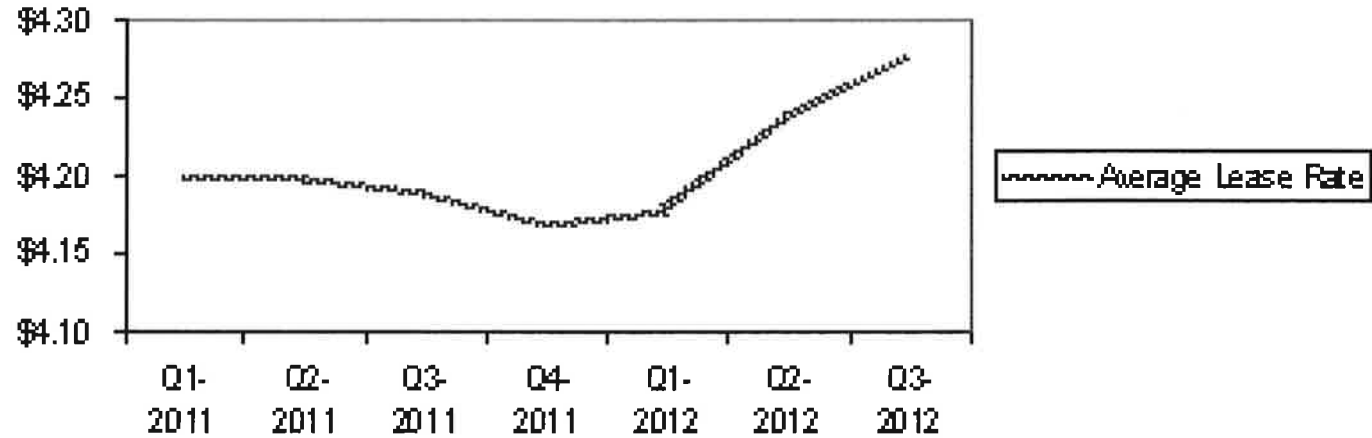


# Lease Rates

- Lease rates increased every quarter in 2012
- Average asking lease rate of \$4.28 as of the end of the 3<sup>rd</sup> quarter (2.5% increased from 4<sup>th</sup> quarter 2011)
- Typical warehouse / manufacturing lease rates range from \$2.50 - \$4.50 / SF
- Typical flex space lease rates range from \$3.50 - \$7.00

# Lease Rates cont.

**Average Lease Rate (2011 - 2012)**



# Lease Rates cont.

## Factors That Have the Greatest Impact on Lease Rates

- Percentage of Finished Office Space
- Age / Condition
- Location
- Outdoor Storage



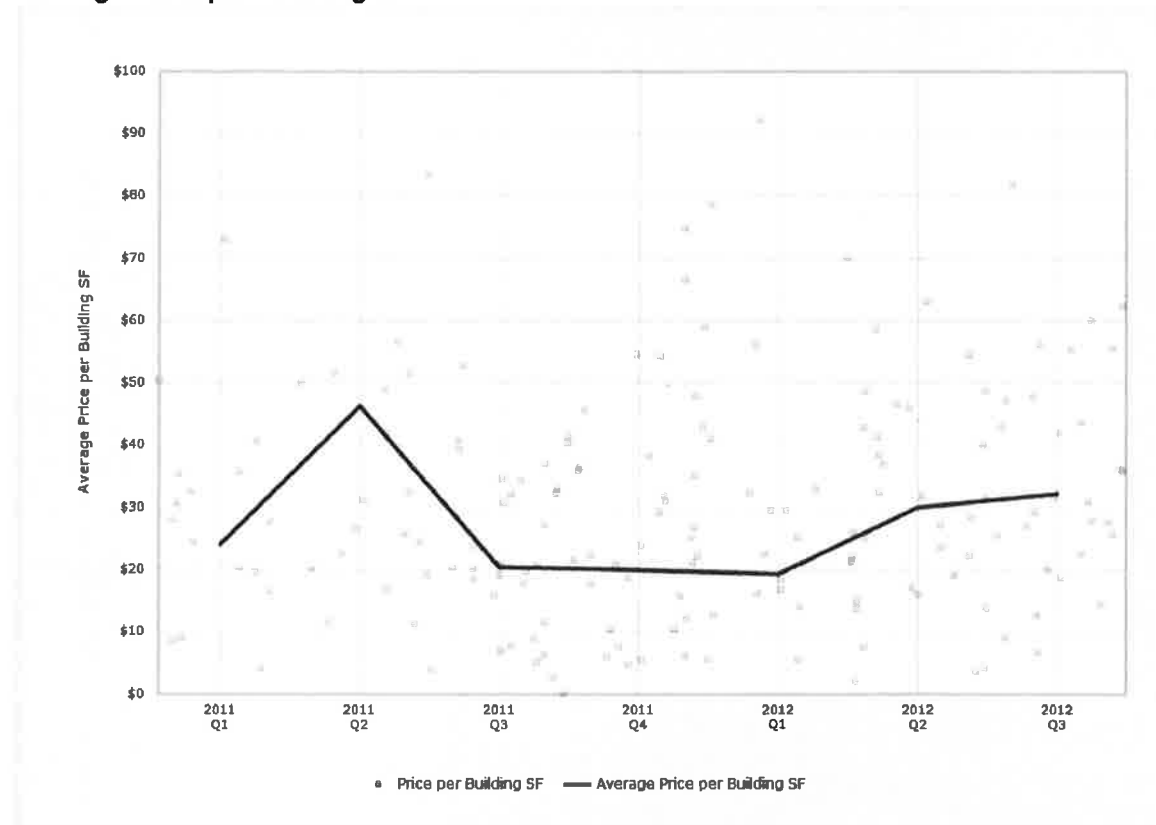
# Sales Activity

- The number of sales in 2012 has been higher relative to the number of sales in 2011
- Sales of industrial buildings larger than 15,000 SF
  - 2012 Q1-Q3 had 94 transactions with an average sales price of \$27.97
  - 2011 Q1-Q3 had 77 transactions with an average sales price of \$31.10

*These figures exclude large portfolio transactions*

# Sales Activity cont.

Average Price per Building SF



# Capitalization Rates

General market expectations range from 9.00% to 10.25%

## *Downfalls of “Reported Capitalization Rates*

- Difficult to find actual capitalization rates in the market
- Market participants often disregard vacancy rates and minimal operating expenses
- Pro-forma or actual?

# Capitalization Rates cont.

## *Difficulties in locating actual capitalization rates*

- Buyers / sellers typically unwilling to share lease information
- Minimal sales activity of investment grade industrial properties
- High percentage of owner-user sales
- Fair amount of partially owner-occupied multi-tenant buildings

# Capitalization Rates cont.

*Primary factors contributing to capitalization rates*

- Credit worthiness of tenant
- Length of remaining lease term
- Financing terms
- Quality / Age / Condition of building
- Location

# Capitalization Rates cont.

## National Warehouse Market Capitalization Rates

	<i>Institutional</i>		<i>Non-Institutional</i>	
	Range	Average	Range	Average
1st Quarter	6.00% - 12.00%	7.41%	7.00% - 15.00%	9.04%
2nd Quarter	5.50% - 12.00%	7.33%	6.50% - 15.00%	9.21%
3rd Quarter	5.25% - 12.00%	7.13%	6.00% - 15.00%	8.82%

*Source: PwC Real Estate Investor Survey*

## National Flex / R&D Market Capitalization Rates

	<i>Institutional</i>		<i>Non-Institutional</i>	
	Range	Average	Range	Average
1st Quarter	6.50% - 12.00%	8.71%	7.50% - 16.00%	11.04%
2nd Quarter	6.50% - 12.00%	8.65%	7.50% - 16.00%	10.90%
3rd Quarter	7.00% - 12.00%	8.54%	8.00% - 16.00%	10.54%

*Source: PwC Real Estate Investor Survey*

# Hot Submarkets

## Eastern Washington County (Germantown)

- Boasts one of the highest average lease rates (\$5.32/SF) and lowest industrial vacancy rates (3.0%) in Metro Milwaukee
- Good mix of functional older buildings (1970's/80's) and newer buildings (2000's)
- Land available for new development in Germantown Business Park
  - Lots ranging from 2 acres to 12 acres available
  - Convenient access to Hwy 41/45
  - Village cooperation for streamlined development process

# Hot Submarkets cont.

## Racine County I-94 Corridor

- Experienced significant positive absorption in the first 3 quarters of 2012 (262,487 SF or 1% of total inventory)
- Major draw is central location between Milwaukee / Chicago
- Multiple developing business parks with excellent accessibility to I-94
  - GrandView Business Park
  - The Renaissance



# Hot Submarkets cont.

## **Central Waukesha County (Waukesha /Pewaukee)**

- Boasts one of the highest average lease rates (\$5.54/SF) and lowest industrial vacancy rates (4.5%) in Metro Milwaukee
- Centrally located between Milwaukee / Madison
- 19 industrial / flex sales in Q1 – Q3 2012 with an average sale price of \$38.89 / SF
- Quality and high demand space is being quickly absorbed, which may limit future activity.

# Outlook for 2013

- Continued demand for industrial space
- Lease rates to continue trending upwards and vacancy rates to continue trending downwards as the existing supply is absorbed
- Increase in new construction as existing supply increases in value and new development becomes financially feasible
- Decrease in landlord concessions